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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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The Recovery Is Solidly On Track . . .

Depending on whom you talk to, the economy is either dangerously overheating or stalling. Some analysts point to the 8.3 percent seasonally adjusted annual rate rise in the first quarter's GNP, stepped-up capacity utilization rates and the sharp runup in commodities prices as proof that inflation has been reignited and will worsen before long. Others point to March's sag in housing starts and retail sales, not to mention the 1.1 percent month-over-month drop in the index of the leading indicators. They say that the current expansion has reached its peak.

But neither of these extremes seems to be the case. The economic recovery should remain solidly on track in 1984. However, as is typical of the second year following the trough of a recession, the pace of business activity should settle down to a much less dramatic rate of growth than we have seen so far. Consumer spending is likely to recede as the main propellant behind the expansion, and business will provide the main impetus from now on. And, if the latest capital spending intentions reported by the Commerce Department materialize, inflation-adjusted business investment may post its largest year-over-year increase in almost 20 years—advancing by 12 percent in 1984.

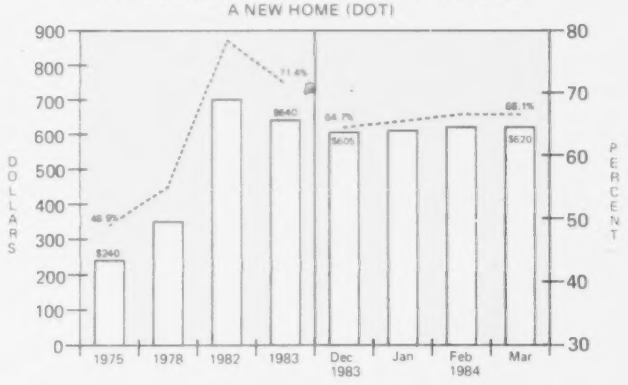
The decline in the index of the leading economic indicators does not necessarily forebode an imminent recession. In fact, until March, this index had posted its longest, uninterrupted upward climb in the postwar period. With only one exception, this index registered at least one month-over-month drop within the first year of recovery from preceding postwar recessions. By the first year and a half of recovery, all but one posted at least two month-over-month declines without signaling the onset of recession. But what they did foreshadow was a slowdown in the pace of business to a more sustainable rate.

For example, residential construction, which along with the automobile sector has so far provided the main charge to this recovery, is likely to slow. Rising interest rates will dampen the increase in housing starts in the next several months, thus narrowing the year-over-year gains. This is because higher rates will make homes more expensive to build and to buy than last year—pricing out a larger segment of potential homebuyers (see chart).

. . . Despite Some Static . . .

To be sure, the first quarter's jump in the "real" GNP overstated the actual strength of the economy. This is because a good-sized chunk of the overall top-line gain stemmed from a rapid and partially

AVERAGE MONTHLY MORTGAGE PAYMENT (BAR) VS. % OF HOUSEHOLDS THAT CANNOT AFFORD TO BUY A NEW HOME (DOT)



unintended, buildup in nonfarm inventories. When this inventory investment is excluded, economic growth was much more modest. Adjusting for the effects of Washington's Payment-in-Kind program, which raised farm inventories by $9.8 billion and lowered government nondefense purchases by the same amount, the resulting final sales rose 4.8 percent in the first quarter. This is only slightly better than the previous quarter's 4.6 percent advance.

Another jump in inventories of similar magnitude in the current quarter is highly unlikely as production more closely tracks the trend in final sales. For one thing, as long as the cost of carrying excess stocks remains at today's lofty heights, businessmen are likely to err on the side of caution. For another, some automobile manufacturers will curtail operations in the second quarter, due to early model changeovers. As a result, automobile production

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is expected to run well below the pace of sales, portending a decline in new car stocks. Furthermore, retailers of soft goods, who restocked their warehouses after the robust holiday season in anticipation of continued strong sales will order less merchandise in the current quarter. This caution arises from the unexpectedly steep, partially weather induced, 1.9 percent drop in sales since January.

On the other hand, several indicators point to further growth in the economy. As long as total employment and personal incomes continue to expand, so too will consumer spending. With individual income tax refunds now approaching last year's record payout pace and savings accounts being replenished, these sources of funds should further bolster consumer spending through the spring. The latest monthly survey of purchasing managers of 250 major manufacturing concerns reveals that employment, production and incoming new orders continue to move ahead, although the rate of increase is slowing. In March, the percentage of companies reporting delivery delays rose to the highest level in almost five years. This indicates an increasingly "busy" economy, as a lengthening in delivery times occurs when companies cannot keep up with shipping dates required by customers.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit	5/2/84		
U.S. Gov'ts and Agencies Owned Outright & RPs	170.301	+ 4.768	+21.289
Loans to Depository Inst.	1.029	– .684	+ .104
Float	.566	– .268	– 1.702
Total Reserve Bank Credit	181.752	+ 4.074	+19.528
Treasury Deposits with Federal Reserve Banks	15.467	+ 6.860	+ 9.614
Currency in Circulation	170.459	– .261	+14.703
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.369	+ 1.176	+ 4.488
	4/25/84		
Member Bank Reserves:			
Total Reserves Held	36.932	+ .837	+ 1.934
Excess (Deficiency)	.561	+ .231	+ .102
Net Borrowed Reserves	.953	– .072	+ .815

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (4/23/84)	532.2	+ 4.3	+ 7.6
M2 (March '84)	2,228.8	+ 6.0	+ 7.8
M3 (March '84)	2,765.6	+ 8.7	+ 9.2
Domestic Nonfinancial Debt (4th Q'83)	5,219.0	+ 10.6	+ 10.8

†Seasonally adjusted. * Seasonally adjusted annual rate.

New York Money Market

Offering Rates 5/4/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.75%	10.05%	10.20%
* Federal Agencies	10.50	10.65	11.40
* Project Notes–Taxfree (46% Taxable Equivalent)	10.19	10.56	11.57
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	10.70	11.10	11.70

‡Finance Company Paper–Prime

5- 14 days	9.85%
15- 29 days	10.05
30- 59 days	10.25
60- 89 days	10.25
90-179 days	10.15
180-239 days	10.00
240-270 days	10.00

‡* Bankers' Acceptances

Jun.	10.40%
Jul.	10.44
Aug.	10.50
Sep.	10.62
Oct.	10.62
Nov.	10.54

‡Industrial Paper–Prime

30- 89 days	10.20%
90-120 days	10.30

†Federal Funds Effective Rate 10.00%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'84	$ 3,541	$ 3,436	$ 3,172
Gross National Product (1972 Dollars)*	1st Q'84	$ 1,604	$ 1,573	$ 1,490
Percent Change, Annual Rate	1st Q'84	8.3	5.0	2.6
Change in Consumer Prices (new series)*	Mar '84	2.4%	4.8%	1.2%
Change in Producer Prices*	Mar '84	6.0%	4.8%	– 1.2%
Civilian Employment (Thousands of Persons)†	Apr '84n	104,402	104,140	99,606
Unemployment as % of Civilian Labor Force†	Apr '84n	7.8%	7.8%	10.2%
Personal Income*	Mar '84	$ 2,941	$ 2,927	$ 2,670
Leading Indicators Composite Index (1967=100)†	Mar '84n	165.5	167.3r	150.2
Industrial Production Index (1967=100) †	Mar '84	160.7	160.0	140.0
Net Change in Consumer Installment Credit †	Feb '84	$ 6.61	$ 4.47	$ 0.74
U.S. Merchandise Trade Balance †	Mar '84	–$ 10.26	–$ 10.09	–$ 3.70
Plant and Equipment Expenditures*	2nd Q'84	$335.40(a)	$332.66(a)	$293.46
Private Housing Starts (Thousands of Units)*	Mar '84	1,638	2,231	1,592
New Construction Expenditures*	Mar '84n	$ 295.6	$ 292.0r	$ 241.9
Total Business Inventories †	Feb '84	$ 527.0	$ 517.8	$ 507.7
Total Business Sales †	Feb '84	$ 399.5	$ 400.9	$ 341.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

. . . In The Economic Statistics

But this is unlikely to strain capacity to the point of rekindling inflation anytime soon. While in previous recoveries, price increases accelerated as capacity utilization rates approached 85 percent, this time around it can be pushed further. To retain competitiveness with foreign-made goods, plants were either modernized or closed, obsolete equipment replaced and break-even points lowered. Now, businessmen are investing in more structures to increase capacity, in contrast with last year's experience when outlays were earmarked for equipment needed to improve productivity and energy efficiency. In the first quarter, business-fixed investment on nonresidential structures jumped a whopping 26 percent at a seasonally adjusted annual rate.

Furthermore, because of the still relatively high level of unemployment, competition for skilled labor is not pushing wages higher. Although the unemployment rate remained unchanged at 7.8 percent of the labor force in April, the number of people looking for work rose to 8.84 million. In addition, another 130,000 persons joined the ranks of those who now work part-time but would like to switch to-full-time employment—bringing the total of partially unemployed persons to 5.6 million. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (4/18/84)	141,116	– 851	–11,690
New York City (4/25/84)	28,798	+ 210	– 6,264
Commercial Paper (4/25/84)	207,939	+ 2,513	+38,450

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/18/84)	234,850	+ 2,009	NA*
New York City (4/25/84)	61,609	– 371	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/18/84)	596,844	+ 6,921	NA*
New York City (4/25/84)	134,689	+ 54	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 5/4/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.06%	+ .11	+ 1.76
180-Day Bills†	10.70	+ .25	+ 2.20
Longest Bills†	11.15	+ .15	+ 2.48
Recent Issues:			
11 3/4s 4/30/86	11.93	+ .08	
12s 3/31/88	12.45	+ .20	
11 3/4s 11/15/93	12.88	+ .13	
12s 8/15/13	12.91	+ .11	
Municipals:			
Bond Buyer–20 Bond Index* (5/3/84)	9.99%	+ .05	+ 1.21
Blue List Total ($ Million)	$1,553	– $ 32	+ $ 80
30-Day Visible Supply ($ Million)	$2,530	+ $ 7	– $2,829
Total	$4,083	– $ 25	– $2,749
Corporates:			
Moody's Aa Composite (5/3/84)	13.76%	+ .15	+ 1.95
30-Day Visible Supply ($ Million)	$2,005	+ $300	+ $ 830
Stocks:			
Dow-Jones Averages:			
Industrials	1,165.31	– 3.76	– 67.28
Transportation	507.61	+ 9.87	– 44.49
Utilities	126.49	+ 1.10	– 2.62
65 Stocks	455.97	+ 2.03	– 27.06
Standard and Poor's 500 Stocks	159.11	– .78	– 6.99
N.Y.S.E. Composite Index	91.75	– .19	– 3.72
N.Y.S.E. Avg. Daily Vol. for Week (000's)	96,292	+10,146	– 6,780

* 46% Taxable equivalent 18.50%. † Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/4/84	Week Ago
Overnight	9.75%	10.38%
1 month	10.63	10.56
3 month	11.00	10.88
6 month	11.38	11.19
1 year	11.88	11.69

EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	12.60%	12.55%
Long Term (7 to 15 yrs.)	12.85	12.80

FOREIGN EXCHANGE SPOT RATES New York Opening (5/4/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01811	55.23
Canada	.7757	1.2891
Denmark	.1009	9.9100
France	.1203	8.3150
Germany	.3690	2.7098
Italy	.0005960	1677.90
Japan	.004416	226.43
Mexico	.005464	183.00
Netherlands	.3278	3.0510
Switzerland	.4456	2.2440
U.K.	1.4107	.7089

Great golf! Great cause! Great price!

The Manufacturers Hanover Westchester Classic is at the Westchester Country Club in Harrison, New York. June 4th-10th.

- Tickets for the Sports House and grounds for 7 days – $60. Grounds only – $45. Monday and Tuesday (qualifying and practice rounds) – $5 or $3 per day. Wednesday (the Pro-Am) – $10 or $6. Thursday, Friday, Saturday, Sunday – $18 or $15 each day.
- Seve Ballesteros, defending champion, and other top pros from the PGA Tour, will compete for $500,000 in prize money, and the winner's purse of $90,000.
- Proceeds help support these area hospitals: United, Lawrence Auxiliary, New Rochelle, Northern Westchester, Phelps Memorial, St. Agnes, St. John's, St. Joseph's, St. Vincent's, Blythedale Children's, Greenwich, Mt. Vernon, White Plains, Yonkers General.
- Tickets on sale at all these hospitals through June 3rd, then at the gate. To charge with MasterCard or VISA call (212) 808-8100.
- For more information call (914) 967-5356.

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